CONSUMER ATTITUDE TOWARD AGENCY BANKING BY CUSTOMERS OF COMMERCIAL BANKS THAT OFFER AGENCY BANKING IN MACHAKOS TOWNSHIP, KENYA

BY

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DECLARATION

I declare that this research project is my original work and has not been presented for a degree in any other university.

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The research project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

I wish to dedicate this project to my Father (Mr. Alexander Mamwa) for the unending love of education he has always instilled in me and to my family for the support they have given me so far.

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I am also grateful to my colleagues and my organization for giving me a humble time to attend and complete the course with less hustle.

ABSTRACT

The study sought to determine the consumer attitude towards agency banking in commercial banks of Kenya. The study had two specific objectives namely: to determine the extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya and to determine the attitudes of consumers towards the use of agency banking in Kenya. The study used applied descriptive research design. The target population for the study constituted 150,041 customers in Machakos town and a sample of 70 customers were selected that is 14 customers from each commercial bank selected randomly from each agency. Both quantitative and qualitative approaches were used in collecting data. The study found out that commercial bank customers are aware of the existence of agency banking in Kenya since the overall mean score is more than half the mark of 2.5 which is half of the possible 5 marks. . The study also found out that the attitude of consumers towards the use of agency banking in Kenya is good since the overall mean score is more than half the mark of 2.5 of the possible 5 marks. The study found out that most banking customers are to great extent aware of the existence of agency banking and also the presence of agency banking made them prefer the commercial bank they were banking with. However, the agency banking proximity at any point in time had moderate mean of 3.30 and the agency banking was the first method that comes to mind when the customers want to transact at the bank. This means that commercial banks customers prefer agency banking being near to them mainly for security reasons. The researcher further recommended further research could seek to address this limitation by use of multiple industries setting to conduct their studies and this would enhance the validity and generalization of the research findings.

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ABBREVIATIONS

POS-Point of sale

GBS- Global positioning system

TRA-Theory of reasoned action

TPB-Theory of planned behavior

DTPB-Decomposed theory of planned behavior

IDT-Innovations diffusion theory

TAC-Technology acceptance model

BI-Behavioral intention

A-Attitude

SN-Subjective norm

PC-Personal computer

UK-United Kingdom

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CHAPTER ONE: INTRODUCTION

1.1Background of the study

Consumer attitude is viewed as a latent or underlying variable that is assumed to guide or influence behavior. Consumer attitude is a learned predisposition to behave in a consistently favorable or unfavorable way with respect to a given object (Fishbein and Ajzen, 1975). Consumer attitudes are a composite of consumers' beliefs, feelings and behavioral intentions toward some object within the context of marketing, usually a brand or retail store. These components seen together are highly independent and together represent forces that influence how the consumer will react to the object. (Mostert, 2012)

Agency banking is a banking service where the bank appoints an agent to offer a variety of banking services on behalf to its client. Agency banking results into deepening of the market and creates economies of scale. It assists in bringing the cost of financial services down and allows for greater financial sector development. Agency banking has also increased employment opportunities across the country. It also means that traditional banks can now recruit other business with a nationwide footprint to offer banking services on their behalf, allowing them to have branches in areas that were not previously commercially viable and thus increased customer base and market share. (Nyaki, 2003)

A commercial bank is a type of bank that provides services such as accepting deposits, making business loans and offering basic investment products. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public. There are 42 commercial banks in Kenya and several banks for example Family Bank Limited, Equity Bank Limited, Chase Bank, KCB, Co-operative bank, Consolidated bank, Post-bank just to mention a few have established agency banking as one of their products.(Echchabi, 2010)

1.1.1 Consumer attitude

A consumer may hold both positive as well as negative beliefs towards an object. In addition, some beliefs may be neutral and some may differ in valance depending on the person or the situation. Also beliefs that consumers hold may not be accurate and beliefs may upon closer examination be contradictory. Since a consumer holds many beliefs it may often be difficult to get down to a bottom line overall belief about whether an object is overall bad or good. Consumers hold certain feelings toward brands and other objects. Sometimes these feelings are based on the beliefs but they may also be feelings which are relatively independent of beliefs. Behavioral intention is what the consumer plans to do with respect to the object. As with effect this is sometimes a logical consequence of beliefs or affect but may sometimes reflect other circumstances. (Samson, 2009)

Attitude toward a brand is a predisposition to respond in a favorable or unfavorable manner to a particular brand after the advertising stimulus has been shown to the individual. (Phelps & Hoy, 1996).Attitude toward a brand has been found to play an important role in influencing consumer's purchase intention. (Goldsmith et al, 2000; 2002; Gresham &Shimp, 1985; Yi, 1990).

1.1.2 Consumer Behavior

The aim of consumer behavior is to ascertain who buys, where, what, when and how. Consumer behavior studies endeavor to learn about consumer response to promotion devices. The results of these studies are useful in the solution of an array of marketing problems. The buying behavior of the customer is influenced by the needs and preferences of the consumers for whom the products are purchased, it describes the consumer buying process as a learning, information-processing and decision-making activity divided in several consequent steps; problem identification, information search, alternatives evaluation, purchasing decision, post-purchase behavior. Next to identifying the steps of the buying process and the potential role of marketing in each stage, marketers are eager to comprehend how purchasing choices and decisions are made and how consumers are likely to react to innovation and how to predict the outcome of the customer vendor interaction. (Davis et al., 1989; Ajzen, 1991; Legris et al., 2003).

Most academics and practitioners agree that demographic, social, economic, cultural, psychological and other personal factors, largely beyond the control and influence of the marketer, have a major effect on consumer behavior and purchasing decisions (Harrell and Frazier, 1999; Czinkota et al., 2000; Czinkota and Kotabe; 2001; Dibb et al., 2001; Jobber, 2001; Boyd et al., 2002; Solomon and Stuart, 2003). Despite their incapacity to exercise any substantial influence on the above factors, marketers can have some bearing on the outcome of the buying process by engaging different marketing tools, the most prominent being the 4Ps – product, price, place and promotion also known as the marketing mix (Borden, 1964; McCarthy, 1964). While the value and current standing of the mix as a marketing toolkit is frequently disputed (Dixon and Blois, 1983; Gro¨nroos, 1994; Gummesson, 1997; Goldsmith, 1999) marketing practitioners nonetheless widely deem the 4Ps as the tools that can influence the consumer's behavior and the final outcome of the buyer-seller interaction (Kotler and Armstrong, 2001; Kotler, 2003; Brassington and Pettitt, 2003).

1.1.3 Banking industry in Kenya

Central bank of Kenya is tasked with formulating and implementation of monetary and fiscal policies. Central Bank is the lender of last resort and is the banker to all other banks. The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the country and the solvency of the Kenyan shilling. To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenyan Bankers association. Kenyan Banks have realized tremendous grow in the last five years and have expanded to the east African region. The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most. (Ndung'u, 2013)

Kenya's financial industry is currently one of the fastest growing not only in the East African region but in the continent. The Government is committed to the implementation of sound policies towards financial deepening and overall economic development of the country as captured in Vision 2030.The banking industry should work towards reducing costs of doing business so that the costs of financial services can also be brought down. The area in reducing costs of doing business is the cost of rolling out branch networks to reach Kenyans cost-effectively. This has worked and will work well with the introduction of Agent Banking. (Atandi, 2013)

To ensure short and long term efficiency, viability and sustainability of banking services in Kenya, the business environment has to be improved through demonstration of political will and commitment in the repayment of non-performing loans, finalization of the comprehensive financial sector development strategy that is underway, strengthening the existing institutions, establishing those required for improving performance and services and carrying out the required legal and regulatory reforms (Ondieki, 2007).

1.1.4 Agency Banking in Kenya

At the Clinton Global Initiative, meeting held in New York in 2011, Kenya's Equity Bank's agency model, was singled out and praised for having revolutionized banking in the developing nation. Through cost-effective agency banking networks, customers can now access banking services in kiosks around the country, particularly in remote, previously unbanked territories. Agency banks offer normal banking services such as cash deposits and withdrawals, disbursement and repayment of loans, salary payments, pension payouts, transfer of funds and the issuing of mini bank statements, all through shared infrastructures. In addition, the agency network allows banks to reach new customers, who can open new accounts, perform credit and debit card applications, and cheque book requests (Echchabi, 2010).

Agent banking systems are up to three times cheaper to operate than branches. There are two reasons for the cost saving, firstly the bank's reduced need to invest in new infrastructure, and secondly, acquisition costs are lower for mobile-enabled agents and mobile wallets. By using mobile phones instead of payment cards, she states that customers can be acquired at less than 70% of the cost of a branch or POS enabled agent. (Clara, 2011)

The banking sector in the Kenyan community has been diversified with the introduction of technology and the projects initiated by some of the banking institutions. The projects provided commercial banking services to remote rural communities in Kenya. These financial services are provided at village satellite center, which are agency banking units attached to existing branches. They provide customers with the same financial services as in normal branches, such as deposits and savings, money transfers, remittance processing and loans (Ondieki, 2007).

The service helps to reduce congestion in banking institutions, as well as increase the banks ‘penetration. Agency banking customers pay the same rates for their transactions as at branches plus a small fee for the banking access. The mobile units use solar power to run a computerized transaction processing system that is directly linked to the home branches via global positioning system (GPS) and satellite. Agency banking in turn is a subset of e-banking in which customers access a range of banking products, such variety of savings and credit instruments, via electronic channels and the customer is required to hold a deposit account to and from which payments or transfers may be made (Macharia, 2001).

1.2 Research problem

Agency banking has increasingly gained importance in developing countries over the last decade. According to Barasa & Mwirigi (2013) agency banking has played a pivotal role in enhancing the penetration of banking services in unbanked markets. Besides, agency banking also enhances the access of the full range of banking products within a less than formal setting. They also concluded that the agency banking model has not only helped to demystify banking among low income populations but it has also placed beneficiaries on sure path towards become financially secure. The study also found that banking agents also double up as the backbone of electronic money banking since they perform transactions over a bank device, to enable clients to convert cash into electronic money and vice versa. This is an important role in enhancing financial sector deepening. Agency banking has changed little when it comes to the way people seek services in the banks since the model was started, there are still long queues in the banking halls and none at the agents. Security and confidentiality are among the reasons why agency banking has not been given full support because some outlets are situated on risky locations. Agents also lack the capacity to handle large transactions of cash and are not spending enough on security measures (Atandi, 2013).

Commercial banks of Kenya have not had a comprehensive evaluation of what is the consumers' attitude towards the agency banking. They also do not have comprehensive investigation as to what consumers feel belief and intent on the agency banking product so that challenges facing the product could be evaluated and improved for the continuity of the product in the market. The question that begs for answers and requires immediate intermediation is the effects of consumer attitude towards agency banking. (Mostert, 2012)

Several studies have explored importance of mobile banking in the day to day running of small businesses in Kenya. For instance, Aduda, Kiragu, Ndwiga (2014) Studied the relationship between agency banking and financial performance of commercial banks in Kenya. On the other hand Mwando (2013) focused on Contribution of agency banking on financial performance of commercial banks in Kenya. Vutsengwa, (2013) studied on assessment of the challenge facing commercial banks in sustainability of agency banking in Kenya; A case study of commercial banks. From the above studies, it is evident that no study has been done to determine the consumer attitude towards agency banking by customers in commercial banks in Kenya, thus this study will determine the attitude of consumers towards the use of agency banking in Kenya. (Wambari, 2009)

The researcher acknowledges that other several researchers have also identified agency banking as the subject of their research; however they have not established why agency banking is not thriving to consumers as it was expected on its invention and business model. The researchers have mostly researched on the impact of the agency banking to the owners and not critically looking into the consumers' attitude towards the product (Nganga and Mwachafi, 2013). This study intends to determine what do consumers feel, belief and intent on the agency banking product so that challenges facing the product could be evaluated and improved for the continuity of the product in the market?

1.3 Study Objectives

The objectives of this study were to determine the consumer attitude towards agency banking in commercial banks of Kenya.

i) To determine the extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya.

ii) To determine the attitudes of consumers towards the use of agency banking in Kenya.

1.4 Value of the study

The findings of this study are of useful to different cohorts of the population. The bank will use the findings of this study to improve or expand their services in a way geared to economic empowerment to all involved. The study is important in that the banks gets additional knowledge on how to improve on agency banking product by knowing the consumer attitudes towards it.

The consumers will gain knowledge from the study to educate themselves on the many avenues and platforms that agency banking affords to them. Time will prove whether or not the agency system is successful in Kenya but so far it has proved that it has the ability to reach the rural unbanked population.

The study helps agency banking model replicated across Africa depending on how quick the various governments are to get on board and understanding the customer attitudes towards the product.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on customer attitude towards agency banking. This chapter describes the theoretical theories, agency banking, customer attitude towards agency banking, agency banking and consumer satisfaction and customer preference of banking methods.

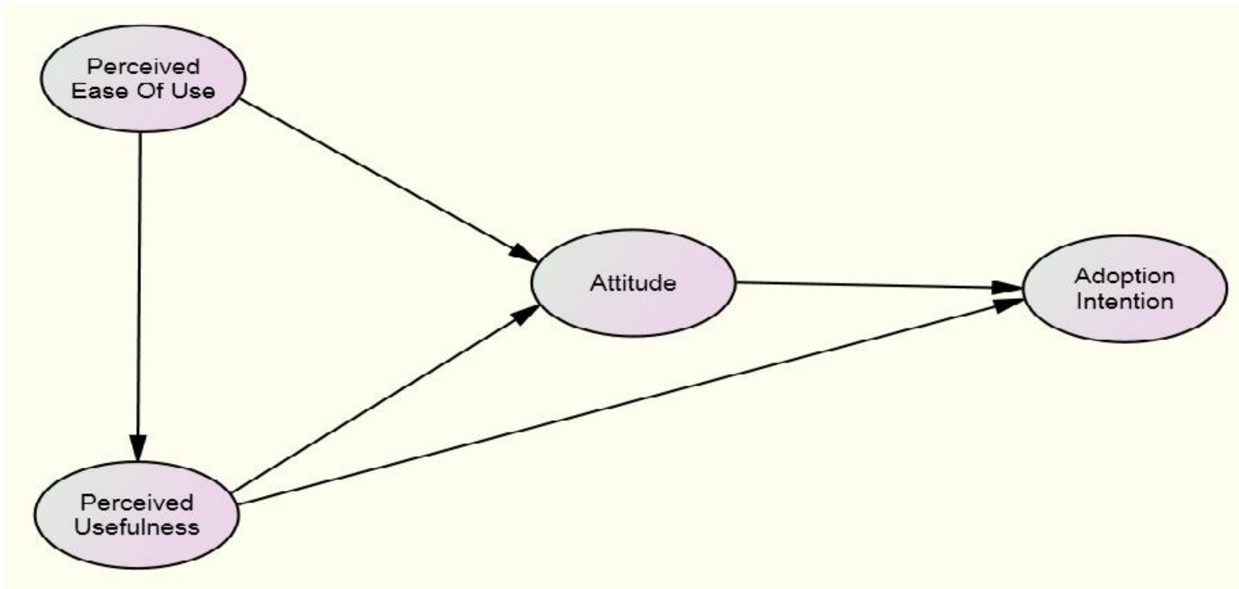
2.2 Theoretical framework

There are different models on customer attitude including theory of reasoned action (TRA), theory of planned behavior (TPB), decomposed theory of planned behavior (DTPB), innovations diffusion theory (IDT) and technology acceptance model (TAM), among others.

2.2.1 Technological acceptance model (TAM)

Among the above models, TAM has been chosen mainly because its basis represents an important theoretical contribution towards the understanding of agency banking acceptance and behavior (Malhotra and Galletta, 1999). TAM developed by Davis (1989) postulates that perceived ease of use has a positive influence on perceived usefulness. Furthermore, perceived usefulness and perceived ease of use have a positive influence on attitude. In addition, perceived usefulness and attitude both have a positive influence on the behavioral intention.

Based on the proposed model, research hypotheses are posited regarding the effect of perceived ease of use and perceived usefulness on the attitude towards agency banking services in Kenya, and also the influence of the attitude on the intention to adopt agency banking services.



Source: Davis (1989)

2.2.2 Theory of reasoned action (TRA)

The theory of reasoned action is a model for the prediction of behavioral intention, spanning predictions of attitude and predictions of behavior. The subsequent separation of behavioral intention from behavior allows for explanation of limiting factors on attitudinal influence (Ajzen, 1980). The theory of reasoned action was developed by Martin Fishbein and IcekAjzen (1975, 1980), derived from previous research that started out as the theory of attitude, which led to the study of attitude and behavior. The components of TRA are three general constructs: behavioral intention (BI), attitude (A), and subjective norm (SN).TRA suggests that a person's behavioral intention depends on the persons attitude about the behavior and subjective norms (BI=A+SN). The TRA posits that behavioral intentions are influenced by attitudes toward the volitional behavior.

Based on the proposed model, research hypotheses are posited regarding the consumers behavioral intention on the attitude towards agency banking services and the overall subjective norm towards the adoption of the agency banking services.

2.3 Agency banking

Agency banking is an emerging facet of electronic banking that, unlike traditional phone banking services, which offer very limited functions, is a potential platform for automated banking and other financial services. It is a wireless service delivery channel that offers additional value for customers by providing “anytime, anywhere” access to banking services (Lee and Chung, 2009). Several studies have examined the attitude and/or intention to adopt agency banking services in different countries. Daud, Kassim, Said and Noor (2011) examined the critical success factors influencing the adoption of agency banking services in Malaysia using technology acceptance model (TAM). The authors found that perceived usefulness, perceived credibility and awareness about agency banking have a significant effect on user’s attitude thus influencing the intention toward agency banking. A similar study was conducted by Cheah, Teo, Sim, Oon, and Tan (2011), and found that factors such as perceived usefulness, perceived ease of use, relative advantages and personal innovativeness were positively related with the intention to adopt agency banking services. In the same context Riquelme and Rios (2010) found that usefulness, social norms, and social risk are the factors that influence the intention to adopt agency banking services in Singapore.

Similarly, Bankole, Bankole and Brown (2011) investigated agency banking adoption in Nigeria. The authors used both questionnaires and interviews for data collection. Their results showed that culture is the most important factor influencing agency banking adoption behavior in Nigeria. In another context, Suoranta (2003) examined the agency banking services’ adoption in Finland and found that relative advantage, compatibility, communication and trial ability are the most important factors in explaining consumers’ behavior. Similarly, Wessels and Drennan

(2010) studied agency banking services adoption in the Australian context; they found that perceived usefulness, perceived risk, cost and compatibility are affecting consumer acceptance of mobile banking. Lee, Lee and Kim (2007) examined the factors that influence adoption of agency banking services in South Korea using TAM. The authors found that the financial-performance risk dimension is the most salient concern for this sample and its context. Similarly, Gu, Lee andSuh (2009) explored the adoption of agency banking services in South Korea, based on TAM model. The study found that self-efficiency was the strongest antecedent of perceived ease-of use, which directly and indirectly affected behavioral intention through perceived usefulness in agency banking.

A similar study was also conducted by Lee, Park, Chung and Blakeney (2011), and found that connectivity influences perceived ease-of-use directly. In addition, perceived monetary value has a significant effect on perceived usefulness, inferring MFS is not only useful for a firm, but also from a time and monetary value standpoint. Personal innovativeness significantly influences perceived ease-of-use, so innovative users can take advantage of MFS more frequently. Absorptive capacity also directly affects usage intention. Finally, perceived task technology, versus a task characteristic view, significantly influences perceived usefulness.

Furthermore, Brown, Cajee, Davies, and Stroebel (2003) investigated the predictors of agency banking services in South Africa. Factors identified as influences included relative advantage, trial ability, and consumer banking needs, with perceived risk having a major negative influence.
On the other hand, Cruz, Neto, Munoz-Gallego and Laukkanen (2010) examined the adoption of agency banking services in Brazil. Perception of cost, risk, low perceived relative advantage and

complexity were revealed to be the main reasons behind the use the service. A similar study was conducted by Puschel, Mazzon and Hernandez (2010). In another context, Koenig-Lewis, Palmer and Moll (2010) investigated the factors that influence agency banking adoption in Germany using TAM. The results of the study indicated that compatibility, perceived usefulness, and risk are significant indicators for the adoption of agency banking services in Germany.

According to Koivu (2002), an appropriate banking environment is considered a key pillar as well as an enabler of economic growth (Koivu 2002).In an environment with a continuously emerging wave of information driven economy, the banking industry in Kenya has inevitably found itself unable to resist technological indulgence. The need for convenient ways of accessing financial resources beyond the conventional norms has seen the recurrent expansion and modernization of banking patterns.

The expansion of a new branch network abroad remains unattractive for financial reasons (fixed costs), because of existing overcapacities as well as due to new sale technologies (The Economist, 1998; Ackermann, 1998 and Haberer, 1993). The Kenya Banking sector has experienced three main developments in the distribution strategies of banks favored by the adoption of the new technologies. First, branches are being redesigned in terms of location and services offered to clients in order to make them more cost-efficient and to integrate them with the new distribution channels used by banks. Second, electronic channels are growing rapidly, and these channels are used not only for providing information and transaction services, but also for the promotion and sale of banking products. Third, banks are gradually increasing their cooperation with third parties, such as retailers, financial companies and financial agents/services groups. All these developments have led to an increased focus of banks on selling products, with possible consequences on banks' traditional information-intensive intermediation activity.

2.4 Customer attitude towards agency banking

As perceived service quality portrays a general, overall appraisal of service that is, a global value judgment on the superiority of the overall service, it is viewed as similar to attitude. Prescriptions of service quality could occur at multiple levels in an organization, for example with the core service, physical environment and interaction with service providers (Bitner and Hubert, 1994) on the other hand customer‘s overall satisfaction with the service organization is based on a function of all the encounters or experiences of the customers with that of the organization. Similar to service quality, customer satisfaction can occur at multiple levels of an organization for example with the contact person, satisfaction with the core service and satisfaction with the organization as a whole.

A wide definition of attitude sees it as an enduring organization of motivational, emotional, perceptual and cognitive processes with respect to some aspect of our environment. (Hawkins: Best and Coney, 2004). More specifically attitude refers to knowledge and positive or negative feelings about an object or activity (Pride and Ferell,1991) and can also be seen as an overall evaluation that expresses how much we like or dislike an object, issue, person or action(Petty, Unnava , and Srathman, 1991 apud Hoyer Macinnis,2001; Solomon,2004).

According to Katz(1960) and Grewal, Mehta and Kardes(2000) attitudes serve four key functions for individuals: Knowledge function, as a means of organizing beliefs about objects or activities such as brands and shopping, often determining subsequent behaviors; Value-expressive function, when attitudes are formed and serve to express an individual's central values and self-concept; Utilitarian function, based on classical condition theory, with people tending to form positive attitude towards rewarding products and negative attitude towards other products and also Ego-Defensive function, when people form attitudes to defend their egos and self-images against threats and shortcomings. Attitudes are formed by all of the four different influences but generally one of them plays a more important role (Hawkins, Best and Coney, 2004).

2.5 Agency banking and consumer satisfaction

Quality is a comparison between expectations and performance. (Barbra, 1991) Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis (Lewis and Booms, 1983). The comparison of expected and perceived service in not like that performed by consumers when evaluating goods, what differs with service is the nature of the characteristics upon which they are evaluated. Regardless of the types of services consumers use basically similar criteria in evaluating service quality. These criteria seem to fall into seven key categories which are labeled service quality determinants as described in the table below (Parasuraman et al. 1985). The typical customer satisfaction index is directly related to perceived ability of individual service organization to meet the service time requirement. Customers leave dissatisfied when they feel have spent too much time on something which would take less long. Quality is perceived objectively and subjectively (Blummberg, 1991)

Quality customer service will make the customer much delighted. Customer satisfaction will turn lead to more repeat business. Delighted customers are company's best salesman and happy customers continue proclaiming about the quality service to other customers (Maxhand & Plowaman, 1992)

Customer satisfaction is key in the service industry. Customer satisfaction is driven by different elements in the banking sector including the bank features and personnel attributes of the bank employees (Rust& Zahorik, 1993). Krishna et al (1999) conducted studies that found that the customer perceptions of the product and quality of those products were a driver of total customer satisfaction. They further recommended service delivery as having an impact on the level of customer satisfaction. Parasuraman et.al (1994) study showed that customer satisfaction with service delivery and the price as key to overall customer satisfaction evaluation. They further pointed out the importance of service features, the staff and the information conveyed.

Service quality and handling of customers complains affects overall customer satisfaction (Levesque & McDougall, 1996). Bank features like the ambience, bank interest rates, and perception of employee's skills are factors that drive customer satisfaction. Customer satisfaction is key driver of customer retention in the banking industry (Reicheld& Sasser, 1990). Bolemer and Kasper (1995) study showed that image, service quality perceptions and satisfaction as key determinants of customer loyalty in the banking industry.

2.6 Customer preference of banking services

Electronic banking facilitates the provision of information or services to customers using several different methods of delivery: PC banking, Internet banking, managed networks, i.e. where a bank uses an online service provided by another party, TV-based banking, telephone banking and mobile phone banking. It allows customers to access their banks and bank accounts, and undertake banking transactions. As such, it is primarily concerned with accessing information, transferring funds and purchasing financial products or services. There is widespread agreement that electronic banking will have a significant impact on bank markets. Indeed, there has been dramatic growth in the adoption of Internet banking world-wide. In Scandinavian countries usage figures for banking through the Internet are around 65 per cent while in the UK the figure is much lower at 20 per cent. Ireland has about 14 per cent of the banked population interacting through the Web while in the USA about a quarter of this population Internet bank (Nua, 2002; Durkin and Howcroft, 2003).

Nehmzow (1997) has argued that Internet banking offers the traditional players in financial services the opportunity to use an extremely low cost distribution channel. Internet banking, however, also poses a potential threat to the market share of traditional banks because it undermines the effective barriers to entry traditionally represented by comprehensive branch networks. The actual severity of this threat is open to debate but Way (1999) has argued that traditional banks have a future provided they embrace new technology and deliver a more efficient and productive service to customers.

Apart from technology, there are a variety of other, inextricably linked forces that are exerting change on bank markets. (Jayawardhena and Foley categorize these into external and internal forces, arguing that the former are the most important. External forces include: the changing technological environment, the changing political environment, the changing economic environment and the changing social environment. In the UK, politicians have systematically deregulated the financial markets and have consequently increased not only the absolute levels of competition but also the methods of competing. For example, the current emphasis on service quality, branding, relationship management, customer retention, etc. show how banks are attempting to achieve competitive advantage in what is now a highly competitive market. Changes in society, especially the trend towards greater consumer empowerment, also mean that individuals are being given more responsibility for their financial affairs. Technology is very conducive to facilitating this trend with its emphasis on providing remote online access to financial information and transaction banking at the press of a button.

2.7 Agency banking in improving access to financial services

The use of the agency banking model by banks in Kenya has continued to improve access to banking services and has also increased financial deepening in the country since it was launched in 2010. Since the inception of agent banking, the financial sector has recorded a tremendous growth with most Kenyans accessing finances at their convenience. This has reduced the cost of transaction and the time especially for the Kenyans in remote areas.

According the Central Bank of Kenya report dubbed Development in the Kenyan Banking Sector for the Quarter ended 30th June CBK had authorized 13 commercial banks to offer banking services through third parties (agents). Since 2010, a total of 19,649 agents had been contracted facilitating over 58.6 million transactions valued at Ksh. 310.5 billion. This was an increase from 11 banks that had contracted 18,082 active agents facilitating over 48.4 million transactions valued at Ksh. 250.1 billion in March 2013.

The number of banking transactions undertaken through agents increased from 9.7 million registered in the quarter ending March 2013 to 10.2 million transactions registered in the quarter ending June 2013. Similarly, the value of banking transactions undertaken through agents increased from Ksh. 54.3 billion to Ksh. 60.4 billion over the same period. The increased number and value of transactions demonstrate the increased role of agent banking in promoting financial initiatives being championed by the Central Bank. The increase is due to the fact that Banks and

Financial related Institutions in Kenya are increasingly deploying the use of payments using agencies to enhance the quality of their financial services and increase growth. The pace of transformation in the financial sector speeded up with more agency banking businesses realizing the potential of using the agencies in transacting payments in their service delivery

In Kenya studies indicate the bank with the highest number of customers is Equity bank which has 5.3 million customers and 2,851 agents followed by Co-operative bank with 1.9 million customers and 56l agents. This indicates that agent banking has an effect on financial deepening as the higher toe number of agents, the higher the number of customers.The report also indicated banking sector profit before tax for the quarter ended June 2013 increased by 17.7 percent from Ksh. 28.2 billion in March 2013 quarter compared to Ksh. 33.2 billion for the quarter ending June 2013.

Over the same period, total income stood at Ksh. 92.4 billion being an increase of 8.8 percent from Ksh. 84.9 billion registered in the first quarter of 2013. Interest on loans and advances, fees and commissions and government securities, which are the major sources of income accounted for 57.8 percent, 18.4 percent and 15 percent of total income respectively.The banking sector is expected to sustain its growth momentum on the backdrop of a stable macro-economic environment, domestic and regional expansion by banks and the increased economic activities through the devolved system of government.

2.8 Revolutionizing banking in developing nations

Agency banking is answering the call for greater inclusion across the African continent. Just as it lead the mobile banking race in Africa, Kenya is now striding ahead in terms of agency banking. Financial inclusion is the core of the Central Bank of Kenya's (CBK) reform agenda to support Kenya's development blueprint, Vision 2030. Since the CBK put the agency banking model into operation in May 2010, it has granted approval to 10 banks for the rolling out of their agency networks. To date, these banks have engaged a total of 7,820 agents across Kenya. At the recent Clinton Global Initiative 2011 Meeting held in New York, Kenya's Equity Bank's agency model, was singled out and praised for having revolutionised banking in the developing nation.

Through cost-effective agency banking networks, customers can now access banking services in kiosks around the country, particularly in remote, previously unbanked territories. Agency banks offer normal banking services such as cash deposits and withdrawals, disbursement and repayment of loans, salary payments, pension payouts, transfer of funds and the issuing of mini bank statements, all through shared infrastructures. In addition, the agency network allows banks to reach new customers, who can open new accounts, perform credit and debit card applications, cheque book requests.

2.9 The benefits of agency banking

Financial inclusion results in a deepening of the market and creates economies of scale. It assists in bringing the cost of financial services down and allows for greater financial sector development. In addition to reaching the unbanked masses, the agency banks are also increasing employment opportunities across the country.

Agency banking means that traditional banks can now recruit other business with a nationwide footprint to offer banking services on their behalf, allowing them to have branches in areas that were not previously commercially viable.

In her paper on "How Agent Banking Changes the Economics of Small Accounts", Clara Veniard of the Bill & Melinda Gates Foundation found that agent banking systems are up to three times cheaper to operate than branches. She gave two reasons for the cost saving, firstly the bank's reduced need to invest in new infrastructure, and secondly, acquisition costs are lower for mobile-enabled agents and mobile wallets. By using mobile phones instead of payment cards, she states that customers can be acquired at less than 70% of the cost of a branch or POS-enabled agent.

2.10 Challenges facing the agency banking model

There are a number of challenges facing the agency banking model. For starters many of the banks that have embarked on the agency banking roll-out have found that agents lack the capacity to handle large transactions of cash and that they are not spending enough on security measures. Our agency selection criteria is showing some weaknesses, and we are now re-organizing what we demand of agents in order to favor cash heavy operations in order to meet this demand. (Mwangi, 2010)

CBK statistics show that the regulator has licensed over 10,000 establishments to act as agent banks. Equity bank claims to have outsourced some of its operations to 5000 active outlets. In total CBK's data shows 8,809 agency outlets were opened in 2010 alone, most of which are operated by Equity and Co-operative banks.

Kenya Commercial Bank (KBC) intends to open 2500 agency branches in 2011 and Postbank is aiming significantly lower with its intended 500 branches.

The challenges of handling cash transactions efficiently for agency banks might be influenced by the more than 30,000 mobile money outlets currently operating across the country. This huge network has resulted in a smaller pool of cash-flush businesses from which banks can draw, in order to roll out the agency banking model. The Kenyan government has been advocating an increase in partnerships between the banks mobile network operators and this hurdle might just be the impetus needed to drive further cooperation and partnerships between the banks and the mobile network operators.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the method that was used for the study and adopted the following structure: research design, target population and sample, population description, data collection methods, research procedures and data analysis and methods.

3.2 Research design

A research design helps to control the experimental, extraneous and error variables of a particular research problem being investigated. According to Kerlinger (1978) research designs are invented to enable answering the research questions as validly, objectively, accurately and as economically as possible.

The study applied descriptive research design. Descriptive research design is a systematic, empirical inquiry into which the researcher does not have direct control of independent variables as their manifestation has already occurred or because they are reflecting the state of happenings and qualify the obtained findings through the use of quantitative analysis (Mugenda & Mugenda, 1999).

3.3 Target population

The study was confined to all the customers of the commercial banks that provide agency banking service in Machakos town, Kenya. The target population for the study constituted 150,041 customers in Machakos town. (Census, 2009)

3.4 Sampling

There are 8 commercial banks in Machakos town and 5 of them have incorporated agency banking service. The researcher surveyed all the commercial banks that have agency banking service, thus five commercial banks and a random sample of 70 customers were selected that is 14 customers from each commercial bank selected randomly from each agency. In determination of the sample size, geographical location of the firms was considered in order to evenly distribute the customer's responses. The respondents were people who are knowledgeable with the questions at hand and are able to provide adequate information.

3.5 Data collection

Both quantitative and qualitative approaches were used in collecting data. A questionnaire was prepared for the commercial bank customers and was administered through convenience sampling. Once the questionnaires have been structured effectively, they were then intercepted by the researcher to the commercial bank customers to ensure high level of accurate data collected and offering equal opportunity of participation by the respondents.

3.6 Data analysis

Data analysis is a process of inspecting, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. The research established if adequate data had been collected through the administration of the described instruments. Once ascertained, data duly collected was analyzed using descriptive statistics such as mean and standard deviation. Statistical Package for Social Scientists Program (SPSS) was then used to generate frequency tables, charts and figures. Research findings were then presented thematically on account of the research objectives.

CHAPTER FOUR:DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter presents the research response level, data coding and cleaning as well as the study results in contingency tables. The study targeted to get response from all the selected 70 respondents and managed to collect data from all of them. This represents a response rate of 100 percent of the target population. The data was then coded and cleaned through extensive checks for consistency. The secondary data especially the published literature was used for validating the respondent's responses on the questionnaire.

4.2 Background information

The study sought to get general information for the respondents relating to; their age, gender, level of education and the number of years they had worked in their banks. The section that follows presents descriptive data presentation on the same.

The respondents were asked to indicate their age and their responses recorded in the Table 4.1

Table 4.1 Age of the Respondents.

	Frequency	Percent	Cumulative Percent
18-25	2	4.80	4.80
26-35	4	18.94	23.74
36-45	26	38.72	62.46
46-55	36	35.84	98.30
Above 55	2	1.7	100
Total	70	100	

Source: research

According to the study findings (Table 4.1), 4.8 percent of the respondents were 18-25 years, 18.94 were 26-35years, 38.72 were 36-45 years, and 35.84 percent were 46-55 years while 1.7 percent of the respondents were above 55 years. This shows that majority of the bank customers were aged between 36 year and 55 years.

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of duration of training in their respective police stations. The results are presented in the Table 4.2.

Table 4.2 Level of education

	Frequency	Percent	Cumulative Percent
Post Graduate	2	3.55	3.55
Under graduate	2	2.10	5.65
Diploma	9	12.33	17.98
Secondary	37	52.95	70.93
Primary	20	29.07	100
Total	70	100	

Source: research

The study findings revealed that over 29.07 percent of the study respondents had primary education, 52.95 percent had secondary education and 12.33 percent had diploma education. 2.1 percent had under-graduate level of education while 3.55 percent of the respondents had post-graduate level of education.

4.3. Bank services

The respondents were asked to indicate which bank they get banking service from and their responses presented in the Table 4.3.

Table 4.3 Banking services

	Frequency	Percent	Cumulative Percent
Others	2	2.25	2.25
Family bank	9	12.25	14.50
KCB	10	14.55	29.05
Equity bank	31	42.3	71.35
Chase bank	18	28.65	100
Total	70	100	

Source: research

The study findings revealed that 12.25 percent of the respondents' bank with family bank, 14.55 banks with KCB, 42.3 bank with Equity bank, 28.65 bank with Chase bank and 2.25 use other banks not in the list.

The respondents were asked to indicate the number of years they have been banking with the banks indicated above and their responses recorded in Table 4.4.

Table 4.4 Number of years

	Frequency	Percent	Cumulative Percent
1-5	2	0.52	0.39
6-10	6	2.84	5.31
11-15	24	16.36	41.29
16-20	33	57.52	91.29
Over 20	15	22.76	100
Total	70	100	

Source: research

From the study results on Table 4.4, majority of the study respondents generally agreed that they have been banking with their banks between 16-20 years.

4.4 Extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya.

The extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya was assessed by five measures and their responses recorded in the table 4.5 below.

Table 4.5 Level of Awareness of Agency Banking

Awareness of Agency Banking	**Sample Size**	**Mean**	**Standard Error Mean**	**Significance (p-value)**
Are you aware of any agency banking existence	70	4.1325	0.08760	0.000
Does the presence of agency banking make you prefer the commercial bank you are banking with?	70	4.0640	0.07237	0.000
Is there an agency banking in you proximity at any point in time	70	4.0847	0.09631	0.000
The existence of agency banking has been of great convenience	70	3.3012	0.08351	0.000
Agency banking is the first method that comes to mind when I want to transact at the bank.	70	3.0294	0.09671	0.000

Source: Research data

Table.4.5 presents the relevant result which shows that on the scale of 1 to 5 (where 5= the greatest extent and 1is the lowest extent). Most banking customers are to great extent aware of the existence of agency banking (Mean 4.13) and also the presence of agency banking make made them prefer the commercial bank they were banking with (mean 4.06). However, the agency banking proximity at any point in time had moderate (mean 3.30) and the agency banking was the first method that comes to mind when the customers want to transact at the bank (mean 3.03). Overall, the intensity of extent to which commercial bank customers in Kenya are aware of the existence of agency banking was moderate (mean 3.02).The results reveal that at one-sample t-test comparison of the extent to which commercial bank customers in Kenya are aware of the existence of agency banking mean score indicates differences that were all statistically significant. The extent of awareness of agency banking existence varied from one bank to another.

From table 4.5, the overall mean score of extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya is 3.72. This shows that commercial bank customers are aware of the existence of agency banking in Kenya since the overall mean score is more than half the mark of 2.5 of the possible maximum 5 marks. The study results shows that on overall significance, there is a statistically significant positive relationship between commercial bank customers and aware of the existence of agency banking in Kenya because the p-value of all the measures were less than the set value of 0.05 (p – value = 0.000).

4.5 The attitude of consumers towards the use of agency banking in Kenya.

The attitude of consumers towards the use of agency banking in Kenya was assessed by five measures namely: their views agency banking usefulness, agency banking services, Agency banking preference: Hall banking and Mobile banking preference and their responses recorded in Table 4.6. Table 4.6 presents the relevant result which shows that on the scale of 1 to 5 (where 5= the greatest extent and 1is the lowest extent).

Table 4.6: Attitude of consumers towards the use of agency banking in Kenya

Customer Altitude	Sample Size	Mean	Standard Error Mean	Significance (p-value)
Do you view agency banking as useful?	70	4.39	.0626	0.000
Do you enjoy agency banking services	70	3.48	.0966	0.000
Given chance would you always use agency banking service?	70	3.68	.0832	0.000
Agency Banking Preference	70	3.31	.0830	0.000
Hall Banking	70	3.91	.1761	0.000
Mobile banking preference	70	3.94	.1730	0.000

Source: Research Data

As shown in Table 4.6, most customers viewed agency banking as useful (Mean 4.39) and also enjoy agency banking services (mean 4.20). However, given chance customers would always use agency banking service was moderate (mean 3.39) and Agency banking preference (mean 3.31). Overall, consumers towards the use of agency banking in Kenya was moderately high (mean 3.64).

The results reveal that at one-sample t-test comparison of the consumers' altitude towards the use of agency banking in Kenya. The extent of consumers' altitude towards the use of agency banking in Kenya varied from one bank to another. Do you view agency banking as useful (t-test = 51.51, p-value < 0.05) and it was followed by do you enjoy agency banking services (t-value=48.58, p-value < 0.05). On the other hand, the lowest difference was reported on Mobile banking preference (t-value=27.36, p-value < 0.05). The study results shows that on overall significance, there is a statistically significant positive relationship between attitude of consumers and agency banking of commercial bank customers because the p-value of all the measures were less than the set value of 0.05 (p – value = 0.000).

From the above table, the overall mean score of the attitude of consumers towards the use of agency banking in Kenya is 3.79. This shows that the attitude of consumers towards the use of agency banking in Kenya is good since the overall mean score is more than have the mark of 2.5 which is have of the possible 5 marks. This concurs with Daud, Kassim, Said and Noor (2011) who examined the critical success factors influencing the adoption of agency banking services in Malaysia using technology acceptance model (TAM). The authors found that perceived usefulness, perceived credibility and awareness about agency banking have a significant effect on user's attitude thus influencing the intention toward agency banking. It also goes hand in hand with a similar study conducted by Cheah, Teo, Sim, Oon, and Tan (2011), and found that factors such as perceived usefulness, perceived ease of use, relative advantages and personal innovativeness were positively related with the intention to adopt agency banking services.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary discussions of the findings, conclusions and gives recommendation made from the findings of the study.

5.2 Summary

This study had two specific objectives namely: to determine the extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya and to determine the attitudes of consumers towards the use of agency banking in Kenya. The discussions in the following sections highlight the key findings of the study based on the objectives.

The first objective was to determine the extent to which commercial bank customers in Kenya are aware of the existence of agency banking in Kenya and its effect on the organizational performance. The study found out that commercial bank customers are aware of the existence of agency banking in Kenya since the overall mean score is more than have the mark of 2.5 which is have of the possible 5 marks.

The second objective was to determine the attitudes of consumers towards the use of agency banking in Kenya. The study found out that the attitude of consumers towards the use of agency banking in Kenya is good since the overall mean score is more than half the mark of 2.5 of the possible 5 marks.

5.3 Conclusion

The study was based on the premise that consumer attitude toward agency banking by customers of commercial banks that offer agency banking in Machakos township. The study results supported this premise in that the study found out that the attitude of consumers towards the use of agency banking in Kenya is good since the overall mean score is more than half the mark of 2.5 of the possible 5 marks.

On the other hand, the study found out that most banking customers are to great extent aware of the existence of agency banking and also the presence of agency banking made them prefer the commercial bank they were banking with. However, the agency banking proximity at any point in time had moderate mean of 3.30 and the agency banking was the first method that comes to mind when the customers want to transact at the bank. This means that commercial banks customers prefer agency banking being near to them mainly for security reasons.

5.4 Recommendations

The study found that the attitude of consumers towards the use of agency banking in Kenya is good and it is therefore recommended that there is need for commercial banks to improve the usage of agency banking in Kenya.

The study also found that agency proximity influences customer decision to use agency banking any time they want to bank, it is therefore recommended that the commercial banks should improve on the agency proximity at any point in time.

5.5 Suggestion for further research

The study relied on self-reported data mainly from the commercial bank perspective alone and used a single industry setting. Further research could seek to address this limitation by use of multiple industries setting to conduct their studies and this would enhance the validity and generalization of the research findings.

Although the commercial bank customers were fit for giving reliable data, there's a possibility that the information from these customers was not the only source of information about the attitude and awareness of agency banking in Kenya. It may be vital to use both information from the bank managers and compare with the views of the other stakeholders like the competitors and suppliers. Possibilities of exaggerated results from self-reported data may also exist where secondary data is not available for further validation. To handle this limitation, future research can combine the views of managers, customers, suppliers, competitors and other relevant organization stakeholders.

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APPENDIX: QUESTIONNAIRE

I would like to seek your honest opinion on various issues highlighted in this Questionnaire. Please do not indicate your name, or any information that can identify you anywhere since all responses are anonymous.

After filling the Questionnaire I will personally pick it from you.

SECTION A: GENERAL INFORMATION

Please tick where appropriate

1. Indicate your age

a. 18-25
b. 26-35
c. 36-45
d. 46-54
e. Above 55

2. Indicate your gender

Male Female

4. Kindly indicate your highest level of education.

a) Post-graduate b) Under-graduate c) Diploma d) Secondary e) Primary

5. Which commercial bank do you bank with?

a) Family Bank Limited
b) Equity Bank Limited
c) KCB
d) Chase Bank

6. How long have you been banking with the commercial bank you have indicated above?

a) 1-10

b) 10-15

c) 16-20

d) Above 20

SECTION B: PART I-AWARENESS OF EXISTENCE OF AGENCY BANKING

.1=strongly disagree 2=Disagree 3= Do not know 4=Agree 5=strongly agree

	1	**2**	**3**	**4**	**5**
Are you aware of any agency banking existence					
Does the presence of agency banking make you prefer the commercial bank you are banking with?					
Is there an agency banking in you proximity at any point in time					
The existence of agency banking has been of great convenience					
Agency banking is the first method that comes to mind when I want to transact at the bank.					

PART II: AGENCY BANKING ATTITUDE

1=not at all 2=small extent 3=moderate extent 4=Great extent 5=very great extent

	1	**2**	**3**	**4**	**5**
Do you view agency banking as useful?					
Do you enjoy agency banking services					
Given chance would you always use agency banking service?					
Which banking Methodology (s) do you prefer? Agency Banking Hall Banking Mobile banking					

Is the level of agency banking in commercial banks in Kenya effective?					
Would you rate the delivery of agency banking as effective					
Agency banking provides a change in your revenue.					

14. What are some of the challenges you face by interacting with agency banking?

____

____

____

____

15. How can you advice the bank to overcome these challenges?

....

....

....

....

....

THANK YOU!!

LIST OF BANKS

1. ABC Bank
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CfC Stanbic
7. Chase Bank
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank Kenya
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. First Community Bank
22. Giro Commercial Bank
23. Guaranty Trust Bank Kenya
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank
27. Habib Bank AG Zurich
28. Housing Finance Company of Kenya
29. I&M Bank
30. Imperial Bank Kenya
31. Jamii Bora Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya

35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank (Kenya)
40. Standard Chartered Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank